



Fitch Completes U.S. Tobacco Portfolio Review

Fitch Ratings-New York-29 July 2011: Fitch Ratings has completed its review of its tobacco portfolio, incorporating the amount of Master Settlement Agreement (MSA) payments received by each trust in 2011, and taken various rating actions. For 2011, the aggregate MSA payment was 5% lower than the amount in 2010. This drop was driven by a large decline in tobacco consumption as well as an increase in the disputed payments not being released to the states. As a result, downgrades were taken on a number of turbo and capital appreciation bonds (CABs) which are typically more leveraged and are more negatively affected by the MSA payment decline. No serial bonds were downgraded.

Fitch uses its breakeven model to analyze tobacco performance. The breakeven model assesses how much the MSA payment received by the trust could decline for each bond to pay at the legal final maturity date. The amount of the latest MSA payment that the transaction has received, the capital structure, the reserve account, and the bond's legal final dates are the key inputs to the model. Fitch models tobacco transactions on a cash basis and excludes any disputed funds which are held in escrow. The effect of the increase in disputed payments has been considered in our analysis. If any portion of the disputed payments becomes payable through the MSA in the future, it will be a cash windfall to these trusts.

Since the life of these transactions is typically long and the cash flows can be unpredictable, two years of consecutive model outputs are reviewed to determine whether to downgrade to the model implied output. However, if more than one-notch difference exists between the current rating and the model implied rating, the bond will be downgraded to one notch above the model output. Tobacco ratings are capped at 'BBB+', based on Fitch's credit opinion of the tobacco industry. All bonds with model outputs 'BBB+' and below carry a Negative Outlook to address concern over a future deterioration in cash flows.

California county transactions experienced additional changes this year as a result of the population adjustment. Every 10 years, the amount allocated to each county is revised based on the relative share in population based on the census. As a result, some counties experienced a population increase which partially offset the MSA payment decline and some had a decrease in population which exacerbated the MSA reduction.

Golden State Tobacco Securitization Corporation, UNITED STATES Series 2007-1 and Buckeye Tobacco Settlement Financing Authority, 2007 (Ohio) turbos and CABs are being placed on Rating Watch Negative as a result of the expectation that both transactions will draw on their reserve accounts will be drawn upon in the December 2011 distribution date period. Further downgrades are expected at that time if the reserve balances falls below the minimum.

City of San Diego Tobacco Settlement Revenue Funding Corporation, Series 2006 and Westchester Tobacco Asset Securitization Corporation (New York) have a guaranteed investment contract (GIC) provider in the transactions which is no longer suitable pursuant to Fitch's counterparty criteria (published March 14, 2011). Fitch withdrew its ratings on Security Benefit Life Insurance Company on Aug. 4, 2010 and as a result there is a potential risk to the principal balance of the reserve account. As a result, City of San Diego Tobacco Settlement Revenue Funding Corporation, Series 2006 and Westchester Tobacco Asset Securitization Corporation (New York) were modeled without the benefit of a reserve account.

See the web file for a full list of rating actions.

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Applicable Criteria and Related Research:

--'Global Structured Finance Rating Criteria'(Aug. 13, 2010).